الوطني
NBK

National Bank of Kuwait

3Q 2018

Earnings Conference Call

15 October 2018

3Q 2018 National Bank of Kuwait Earnings Call

Tuesday, October 16, 2018. Edited transcript of National Bank of Kuwait earnings conference call that took place on Monday, October 15th, 2018 at 15:00 Kuwait time

---

Corporate participants:

Mr. Isam Al Sager – Group CEO

Mr. Jim Murphy – Group CFO

Mr. Amir Hanna – Head of Investor Relations

Chairperson:

Elena Sanchez – EFG Hermes

Operator: welcome to the National Bank of Kuwait 3Q 2018 earnings call. Today's conference is being recorded. At this time I'd like to turn the conference over to Elena Sanchez of EFG Hermes. Please go ahead.

Elena Sanchez: Good afternoon and good morning everyone and welcome to the National Bank of Kuwait 3Q 18 results conference call and webcast. It is a pleasure to have with us in the call today Mr. Isam Al Sager, Group CEO of NBK, Mr. Jim Murphy, Group CFO of NBK and Mr. Amir Hanna, Head of Investor Relation of NBK. I would like to handover the call now to Mr. Amir Hanna.

Thank you

Amir Hanna: Thank you Elena for the introduction.

Good afternoon everyone. We are glad to have you on our third quarter earnings call today.

I will start the call as usual by reading our brief disclaimer while our full disclaimer will be displayed on the screens in front of you "Certain comments in this presentation may constitute forward-looking statements. These comments reflect the Bank's expectations and are subject to risks and uncertainties that may cause actual results to differ materially and may adversely affect the outcome and financial effects of the plans described herein. You are cautioned not to rely on such forward-looking statements. The Bank does not assume any obligation to update its view of such risks and uncertainties or to publicly announce the result of any revisions to the forward-looking statements made herein." This concludes our disclaimer for this event.

We will start our call by some opening remarks from our Group CEO, Mr. Isam Al Sager. Following that, our Group CFO, Mr. Jim Murphy, will run you through the quarterly and nine months figures in more details. After concluding the management presentation, we will start addressing all your questions received through the webcast facility but feel free to type in your questions at any time during the call. We will make every effort to answer all the questions received but if any were left unanswered due to time constraints or for any follow up questions that you might have, please feel free to reach us through our investor relations email address which you can find on NBK Group website.

Without further delay let me hand the call over to Mr. Isam Al Sager, our Group Chief Executive Officer for his opening remarks.

Isam Al Sager: Thank you Amir.

Good morning and good afternoon everyone.

Thank you all for joining us today in our third quarter 2018 earnings conference call and webcast.

Similar to our previous calls, I would like to start by highlighting the headlines of our profitability during the nine months and three months periods ending September 30, 2018.

NBK Group reported another very strong set of results during the third quarter of 2018. Our profits for the quarter reached KD 86.5 million; growing at 17.5% year on year.

The strong quarterly profits helped us to continue reporting solid year to date growth trends. Our first nine months 2018 net profits reached KD 272.4 million growing at 14.3% compared to the same period last year.

As we always highlight, our profitability was mainly driven by core banking businesses that are diversified across different segments and in various locations, in line with our strategy to diversify our asset base and sources of income.

Moving to the operating environment, we are still optimistic on the growth of our domestic economy as we continue to see the serious efforts by the Government to increase capital spending. This remains a vital element in the overall health of economic activity in Kuwait.

I am sure everyone tracks the tender and award activity of the projects in Kuwait as an indication of economic activity. Despite some volatility in that area recently, we are still confident in the overall direction. And let me indicate here few things that support our confidence in the future of the infrastructure development in Kuwait.

First, the pipeline of projects remain very strong, Second, the current execution and implementation rates are picking up,

And finally, a higher oil price environment provides more confidence in the overall financial position of Kuwait and the government's capacity to continue spending on infrastructure development.

Now moving to our strategy. In Kuwait opportunities are emerging for the Bank across most sectors. We continue to play the major role in the infrastructure project financing and all other related banking business.

Additionally, Boubyan Bank, our Islamic banking subsidiary continues to perform very well strengthening our market position in Kuwait and allowing us access to opportunities across both markets segments; conventional and Islamic.

Outside Kuwait, our international operations support our strategy of diversification and remain a strong contributor to group profits with around 30% of net profits during the nine months period.

We continue to focus on organic growth within our existing footprint. We remain positive on the region, with the GCC and Egypt being the most important growth markets for us.

Finally, and for those of you who are interested in our credit ratings, I would like to confirm that all our ratings have been affirmed so far this year by the three rating agencies. We continue to be the highest rated bank in Kuwait and one of the top rated in the region.

Now let me handover the call to Jim Murphy, our Group CFO, to run you through the quarterly and year to date numbers in more details.

Jim…

Jim Murphy: Good afternoon everyone, and welcome. I am very pleased to have this opportunity to take you through our Sept 2018 financial results.

We have announced profits of KD272.4m for the nine month period to Sept 2018. This is a 14.3% increase over the comparable period last year.

The profit for the third quarter of 2018 was KD86.5m. This is below our quarter two quarterly results, primarily due to a once off event that triggered a charge against our investment income in the current quarter. I will elaborate on this later.

KD86.5m profit for the current quarter compares with KD73.7m in quarter three of last year. This is a period on period increase of 17.5%.

Before going further into the numbers I would first like to say a few words as to the trading environment thus far this year.

Operating conditions through the reporting period continued to be broadly favorable. Environmental conditions have been supportive and business confidence remained in positive territory. The underlying directional trend is encouraging and demonstrates solid momentum.

Implementation of the government's development plan continues to move ahead. Execution rates are at very progressive levels relative to earlier periods and the projects pipeline itself is very healthy.

We also have had the benefit of improved oil price feeding into the equation.

The implication of the above for the banking and the fuller private sector is a continuation of the ripple through effect serving to offer excellent prospects and opportunities.

Allied to these accommodating conditions has been the continued rise in domestic and international interest rates, which have been conducive to earnings growth at the Group.

Returning now to our performance and results for the period.

I am pleased to advise that we saw solid performances across the entirety of our Group operations - across our various lines of business within Kuwait and across our various geographies, both in the MENA region and in our international operations further afield.

We are also very pleased to see continued strong growth at our Islamic Banking subsidiary Boubyan Bank. Boubyan Bank delivered an 18.9% increase in profits for the nine months period, to KD40.4m.

We will see later in this presentation the materiality and importance of our fuller diversification agenda when looking at the contributions to total Group earnings made by the various banking footprints enjoyed by the Group.

The operating surplus (i.e. pre-provision pre-tax earnings) for the nine month period to Sept 2018 was KD459.7m. This is a 9.7% increase on the comparable period in 2017. The current period benefitted from an 8.5% increase in total income, whilst growth in costs was contained at 5.8%.

I will shortly drill into the main drivers behind the growth in income and in costs, but first I would like to throw some light on the reduction by KD14.3m in investment income between the two nine month reporting periods – and in so doing to also address the net negative investment income of KD6.6m in the current quarter.

The net negative investment income in the current quarter is due to the Group recording a net loss in respect of reclassifying an associate held through one of our subsidiaries, to an FVOCI investment i.e. to an investment classified in accordance with IFRS 9 as fair value through other comprehensive income. The reclassification was necessitated by a reduction in the ability of the Group to exercise influence on the affairs of the entity in question sufficient to satisfy the ongoing classification of the investment as an associate.

So what we have here is a reclassification event. An accounting event triggered by the loss of significant influence.

The net loss was in fact due to the recycling from equity of legacy accumulated FX losses attaching to the associate. The former associate in question is Bank Syariah Muamalat Indonesia.

The period on period impact of the net loss was exacerbated by the recognition across the Group last year of a number of once-off investment gain realizations and distributions. Adjusting for the effect of changes in investment income, total income in the nine month period grew by 11.1% and operating surplus by 13.7%.

Turning now to the results for the current quarter, we see that a KD152.6m operating surplus compares with KD158.2m in quarter two of this year. The primary reason for the decline was the reduction in investment income as just mentioned. Adjusting for the impact of investment income, the operating surplus for the current quarter is 3.2% ahead of quarter two.

The operating surplus in quarter three 2017 was KD145.7m, putting the current quarter 4.7% ahead of the comparable quarter last year, and 13.7% ahead when adjusted for the impact of changes in investment income.

Operating income for the nine month period to September 2018 totaled KD661.8m, as compared to KD609.9m last year. This is a period on period increase of 8.5% - noting that the underlying increase having adjusted for investment income is 11.1%.

Returning to the quarterly results, operating income for the current quarter was KD219.6m as compared to KD228.7m in the second quarter of this year, and with KD211.1m in the third quarter of last year.

The two primary drivers behind the growth in operating income in the nine months to date are (1) a very solid 10.5% growth in net interest income and (ii) a very strong performance in fee income. Fee income is 11.8% ahead of this time last year. I will go into some details on this shortly.

The operating income mix is profiled on the bottom right hand right side of this first slide. 78% of our total operating income is in respect of net interest income, and 22% from non-interest income sources.

I will now examine our net interest income performance for the period, and the growth drivers behind the outcome.

Net interest income at KD515.0m in the nine month period to Sept 2018 compares with KD466.3m in the nine month period to Sept 2017. This is a growth of 10.5%.

Looking at the quarterly results, net interest income at KD178.2m for the current quarter compares to KD173.2m in quarter two of this year, and to KD161.1m in quarter three 2017.

Net interest income is of course a function of volumes and margins.

In terms of volumes - the period saw steady growth in interest earning assets.

Interest earning assets averaged KD25.5bn during the nine months to Sept 2018. This is a growth of 6.5% on the nine month period to Sept 2017. The growth in interest earning assets essentially reflected strong growth in loans and in investments.

I will return to the matter of loan growth shortly.

Coupled with the solid growth in interest earning assets, the Group is also enjoying the benefit of an increased net interest margin.

If you look at the bottom left hand side of this slide you will see that the average net interest margin for the nine month period to Sept 2018 was 2.70%. This compares to 2.60% in the comparable period last year.

You will note that the average NIM for the third quarter of this year at 2.74% is higher than the year to date average. The quarter three NIM reflects the carry through impact of the increase in the Central Bank of Kuwait's discount rate which took effect in March of this year, when the discount rate was raised by 25bps to 3%. You will know that the two most recent increases in the US Federal Reserve rate in June and Sept of this year were not accompanied by increases in the CBK's discount rate.

Turning now to our funding cost. The Group's funding cost in the nine months to Sept 2018 increased by 42 basis points over the funding cost for the comparable period last year. The funding cost in the current nine month period was 1.64%, as compared to 1.22% last year.

The Groups yield in the nine months to Sept 2018 was 4.17%, as compared to 3.69% in the nine month period to Sept 2017. That is an increase of 48 basis points.

So just to recap, an increase in yield of 48 basis points, and a 42 basis points increase in funding cost.

If you look at the bottom right hand side of this slide you will see the constituent drivers that moved the average NIM by 10 bps, from 2.60% in Sept 2017 to 2.70% in Sept 2018. The NIM was impacted favorably by 35bps due to movements in respect of the loan book, whilst the higher cost of deposits impacted NIM to the extent of 31bps

We will now look at how non-interest income performed during the period.

Non-interest income for the nine months to Sept 2018 was KD146.8m. This compares to KD143.6 in the nine month period to Sept 2017. A 2.2% increase. The underlying increase however when adjusted for the movement in investment income, was 13.6%.

The composition of the KD146.8m total non-interest income is KD114.4m in respect of fees and commissions, KD29.2m in respect of foreign exchange activities and a net KD3.2m from other non-interest income sources.

Fees and commissions income delivered an excellent 11.8% period on period growth.

We are particularly pleased with the performance of this income line, demonstrating as it does buoyant levels of business activities across our operations. The sources of the increase in fees and commission income were many, and were well spread across our various business lines and geographies.

You can see that the vast bulk of our non-interest income comes from core banking activities. Insofar as the Group booked a modest level of investment income in the nine months to Sept 2018, and as mentioned earlier, the income was largely negated by net currency losses recorded in respect of reclassifying an associate at one of our subsidiaries to an FVOCI investment.

Total non-interest income in the current quarter was KD41.4m. This compares to KD55.5m in quarter two of this year. In addition to the negative impact of changes in investment income as already mentioned (i.e. a net KD10.4m movement), the reduction in quarterly non-interest income was due to an element of exceptional fee income across the Group in quarter two and also higher currency revaluation gains in quarter two.

The key message that I want to convey however is that growth in core fee income and in FX income was and remains very solid.

Turning now to operating expenses. Total operating expenses in the nine month period to Sept 2018 was KD202.1m. This compares to KD191.0m in the nine month period to Sept 2017, a 5.8% increase. Staff costs grew by 6.2%, and other operating expenses by 5.3%.

In considering cost performance it is helpful bear in mind the fact that the 5.8% increase is of course in respect of the fuller NBK group, and that our individual businesses exhibit different cost growth characteristics. We have two very strongly performing growth phase subsidiaries, Boubyan Bank and NBK Egypt. These two key subsidiaries continue to deliver significant earnings growth, and accordingly they experience a higher rate of cost increase than is typically in effect across the fuller Group.

Closer to home, current period staff costs were impacted by changes to the Labor law in Kuwait that took effect during the course of 2017. This served to increase our staff costs period on period.

Turning to the quarterly results, total operating expenses in the current quarter amounted to KD67.0m, as compared to KD70.6m in quarter two of this year.

The reduction in quarterly costs is largely due to the fact that we experience a certain degree of seasonality in parts our cost base. Staff costs in a second quarter for instance are impacted by the timing of our annual salary review cycle.

I would also make the point that the Group continues to invest heavily in IT. We invest heavily in deploying business enabling technology developments and solutions, in refreshing our IT infrastructures and in ensuring first class cyber security capabilities. We are also well advanced in building a new state-of-the-art Data Centre in Kuwait City.

NBK has long prided itself in being at the forefront in deploying developments in banking technologies, and we continue to press ahead in the pursuit of this core imperative for the Group. Those of you familiar with NBK will know that we invested very significant sums in replacing our core banking platform, a hugely challenging and complex undertaking for any bank, in the not too distant past – the significance of this being our new digital and technology inventories are built on best in breed technology foundations.

We are very pleased to see that the Groups cost to income ratio has fallen to 30.5%, from 31.3% in the comparable period last year. I think it is fair to say that by most international benchmarking standards this is a very impressive ratio for such a key measure of operating efficiency.

Turning now to provisions and impairments. Total provisions and impairments in the nine month period to Sept 2018 amounted to KD145.4m. This KD145.4m charge comprises KD136.9m in respect of provisions for credit facilities and KD8.5m in respect of impairment losses re investments in associates held at or through our subsidiaries.

As regards the current quarter, total provisions and impairments amounted to KD51.5m. This compares to KD51.6m in quarter two of this year, and to KD60.5m in quarter three 2017.

I'll just take this opportunity if I may to remind you that the State of Kuwait has not yet fully adopted the provisioning requirements of IFRS 9. IFRS 9 requirements pertaining to expected credit losses on lending facilities remain superseded by the provisioning requirements of the Central Bank of Kuwait in this regard. We therefore computed an ECL charge in respect of other financial assets only, the impact of which was immaterial in the period.

We await further developments on IFRS 9 as the year progresses

I would now like to return to the matter of earnings diversification.

One of the primary strategic objectives at NBK has long been an imperative to diversify our operations and sources of earnings, but to do so of course in a manner that is consistent with the risk appetite of the Group and other prevailing parameters.

This slide demonstrates the impact of our diversification agenda on the Groups financial performance.

NBKs International operations contributed KD86.6m to Group profits in the nine month period to Sept 2018. This compares to KD72.8m in the nine month period to Sept 2017, an increase of 19%.

You will see from the pie chart on the right hand side that earnings from our International operations contribute a well-established circa. 30% of total Group profits.

On this particular occasion, the contribution was 32%.

In addition to our geographic diversification, NBK is unique amongst Kuwaiti Banks in being positioned to operate in both conventional banking and Islamic banking. The Groups Islamic banking subsidiary Boubyan Bank continues to perform extremely well, and delivered profits of KD40.4m in the nine month period to Sept 2018. This compares very favorably to KD34.0m in the nine month period to Sept 2017, and represents a strong period on period 18.9% increase in bottom line profit.

Looking at the overall impact of our diversification strategy, it is pleasing to observe that 40% of Group earnings in the nine month period to Sept 2018 was derived from our International and Islamic banking operations combined.

The impact of diversification on our assets base is such that 47% of Group assets are at our conventional Domestic operations in Kuwait, 16% at Boubyan Bank and 37% at our International operations.

On this slide we will look at certain key volume metrics for the period.

Total assets increased to KD27.1bn at the end of Sept 2018. This is a 4.2% increase on December 2017, and a 5.7% increase on Sept 2017. This increase in assets was driven primarily by growth in our loan book.

Our loan book, at KD15.4bn, increased by approximately KD900m in the nine month period to Sept 2018, and by approximately KD950m in the twelve month period from Sept last year. This represents a strong 6.2% growth in our loan book in the nine month period to Sept 2018.

It is encouraging to note that strong underlying growth was had in all of the Groups key lending markets i.e. Domestic, International and Islamic.

Customer Deposits, at KD14.1bn, grew by 2.1% on December 2017, and by 5.4% on Sept 2017. Just for clarity, please note that customer deposits as defined here do not include deposits taken by the Group from non-bank financial institutions.

In addition to the overall growth in Customer Deposits, we were particularly pleased to see that significant growth was experienced in respect of core franchise deposits, with excellent growth in retail deposits.

The growth in retail deposits reflects a focus on the deposit gathering aspects of our business in recent times, including a focus on bringing new, innovative and relevant products to the market place.

A factor underpinning the growth in our franchise deposits is the fact that we are able to capitalize on the strong NBK brand and reputation, leveraging the well established relationships that have been in place for many years across our various banking businesses and geographies.

Customer Deposits comprise 61% of the Groups funding mix. This is in keeping with earlier periods as shown.

On this final slide we will look at the impact of our financial results on certain key performance metrics.

The Return on Average Equity for the nine months to Sept 2018 was 11.9%. This compares to 10.8% for the full year 2017, and to 10.8% in the nine months to Sept 2017.

The Return on Average Assets for the nine months to Sept 2018 was 1.36%. This compares to 1.28% for the full year 2017, and to 1.27% in the nine months to Sept 2017.

The Capital Adequacy Ratio at Sept 2018 was 17.2%. This compares to 17.8% at year-end December 2017. The decline in our reported ratio is primarily due to the construct of the ratio at interim reporting periods. Year to date earnings are excluded from the computation at interim periods.

In addition to the matter of timing, there was also a small negative impact on our opening capital ratio as a result of the partial transition to IFRS9 earlier this year.

Asset quality ratios remain solid, with the NPL ratio at 1.37% and the coverage ratio at 237%. Although tighter than the very high ratios that were in existence at the end of last year, the current ratios are very comfortable.

That brings an end to my presentation.

Before I hand back to Amir, I am happy to conclude and summarize by saying that 2018 has thus far been solid and satisfactory. Excellent growth has been had across all operating units and geographies of the Group, and took place against a backdrop of broadly favorable trading and operating conditions.

We look forward with confidence to the remainder of the year, with strong hopes of building on the results for the first nine months of the year and hopeful of further harnessing the strong momentum that is in and across our businesses.

Thank you very much for your time.

And now back to Amir.

Amir Hanna: Thank you everyone for listening to our presentation. We will put you on hold for a couple of minutes then we will start answering the questions as they come in.

We're back. We got a couple of questions so far.

Question one says, share your comments on why the loan growth has been negligible in Kuwait in 9M 2018?

Jim Murphy: I'll take that, I'll answer the question from an NBK perspective.

We had stronger overall growth than the system in Kuwait, primarily because of strong growth from our overseas operations and also with our Islamic banking subsidiary delivering strong growth.

In the Kuwait domestic market, there were some settlements and certain movements in the timing of transactions, but fundamentally the underlying growth in the core business was very strong.

If we look at the totality of the net growth in the Kuwait domestic market coupled with the growth that we saw in Boubyan and international, we see a very robust 6% growth in the 9M's, which we think is very solid. We are very satisfied with that level of growth.

Amir Hanna: We have another question on non-interest income. Basically the question says, if we add back the KD 5 mn, non-interest income will still be down 18% QoQ or 8% YoY; can you please elaborate on the reasons for that?

Jim Murphy: Yes**.** It is difficult and probably of limited use to just look at the arithmetic when comparing one period to the preceding period.

There is always a degree of seasonality between quarters.

What we saw in Q2 was income in respect of a number of transactions that had come together in that particular quarter from across a number of our businesses and from across a few of the geographies. Those transactions culminated and just happened to land in the same quarter.

Q2 was actually very strong as we also saw some movement in FX revaluations between the two periods that influenced the outcome.

So, when we strip out the impact of the KD 5 million net investment loss, and if we are to remove the buoyancy and lumpiness of some fee income and FX income in Q2, the underlying movement in fee income and FX is solid and is upward.

Amir Hanna: Another question on loan growth but that's mostly focused on the outlook. Can you please comment on loan growth outlook both corporate and retail in Kuwait and international?

Jim Murphy: Yes. Well I think broadly speaking having regards to the trends that we have seen so far this year, we would expect this to continue.

There is always a caveat of course that certain of any larger deals can move from quarter to quarter.

Generally however, if you look at the averaged trend of the 9M period, we are broadly looking at a continuation of the same magnitude of growth.

Amir Hanna: Another Question. When do you anticipate international return on assets to exceed domestic return on assets? Is this the primary reason you are looking to lift the weighting of this segment within the group?

Jim Murphy: Well no. The businesses are very different and the characteristics of these businesses across the geographies are very different.

Our business operations overseas are a matter not just of returns, but also a matter of strategy.

And as we saw in the presentation, to take 40% of Group earnings from outside of our core business; 30% from international and 10% from Islamic approximately; the benefits of diversification are as much strategic as they are financial.

And what you must remember too is that the composition of the international returns is amalgam of many businesses and many geographies in different continents.

So, it is probably not complete to just do direct comparisons between the metrics for the domestic operations and the international operations, because the characteristics of the businesses can be very different and the underlying rationale can be by way of strategic intent as much as anything else.

Isam Al Sager: we still expect that our international contribution will increase in the next 5 years, staying well above 30%.

Amir Hanna: We are waiting for more questions to come in.

A question here on the debt issuance law; has there been any progress on new debt issuance as we hear the ceiling is likely to be raised in the coming weeks?

Isam Al Sager: Well this is true. We expect that to be discussed in the Kuwaiti Parliament in the next period which will start by end of October.

I would say it will be discussed, I'm not sure if it will be approved; but most likely it would be approved within the next 6 months.

Amir Hanna: another question linked to the first one on margins. What is your outlook for margins in Q4 and FY 2019; as the central bank doesn't mirror the Fed rate cycle?

Jim Murphy: We expect to see moderate, modest increase in NIMs.

The uplift in NIM that we have seen over recent periods, that is the capacity to work margins as a results of rising interest rates is higher in the early days of the increase cycle.

The key thing for us is the Central Bank of Kuwait following the upward move in Fed.

Although the increasing US dollar rates in itself is marginally beneficial to the Group, the move of real benefit to the Group is the CBK's discount rate.

So in Q4, if one were to anticipate that the Fed would move again and if one were to anticipate that CBK would follow, the impact on NIMs in Q4 is probably such that as we don't expect the rate to happen early in the quarter any impact will be minimal in Q4 itself.

So, if the question really is, and if I recall correctly the NIM is currently at 2.74%, I think that it should broadly hold for the remainder of the year.

However, the benefit of any Q4 increase in the discount rate would carry forward into next year. Similarly, if the Fed increases next year and the CBK follows, then the benefit can be expected to be marginally beneficial depending on timing.

In terms of guiding what we expect NIM to do in future periods, I wouldn't expect a huge change on current rates. I think we might be able to work the rates in such a way that we could see a marginal increase, but nothing hugely significant or material.

But of course, the good thing is that we are working on a base of strong volumes. Business volumes are buoyant and have grown significantly as we have seen over recent periods.

The benefits of any higher NIM will apply to higher business volumes as compared with previous periods

Amir Hanna: Question on deposit growth. Deposit growth seems behind loan growth, with loan to deposit ratio quite high at 109.5%; and deposits have contracted from Q2 to Q3. Could you share your thought and outlooks on the same?

Jim Murphy: NBK is fortunate in having multiple sources of deposits. Governments and quasi-government, retail, corporate, domestic, international, conventional, Islamic etc.…; the point is we are extremely well diversified.

We have the luxury of sourcing or letting go deposits in line with the funding agenda at a particular point in time.

The Group decided to retire some deposits through the course of this year. However, we saw a very favorable change in mix. I think I mentioned during the presentation that we saw very good growth in what I refer to as franchise deposits. We had particularly strong growth in retail deposits which is important to any bank like ourselves.

The lack of strong growth in deposits does not signal anything by way of a less than desirable growth in customer deposits. We selectively retired deposits that we would not have considered core relationship deposits and focused our efforts on growing what we do regard as core relationship and core franchise deposits.

The movement in deposits is exactly in line with the needs of the Group, with a more favorable mix than would have been in place going into the period.

Amir Hanna: We have a couple more questions on margins which I think we covered very well in terms of outlook and how the NIMs react to the rate hikes. Do you have any follow up on that please just type it in? On loan growth, the loan book in Q4 of last year increased only slightly versus Q3; should we expect similar trends this year?

Jim Murphy: No. You recall there were a couple of headline settlement events in that particular quarter, so one has to discount the actual optics of loan growth last year due to a large underlying event that played a role in the outcome

Amir Hanna: Can you comment on your excessively high capital adequacy ratio? If the CBK is only requiring 15%, why you have yours at 17.5%?

Jim Murphy: First of all, it is not excessively high; it is appropriately high.

Our regulatory minimum is 15%, however, for a bank of our high credit rating, it is appropriate that we carry sufficient clearance over and above the regulatory minimum.

We also carry sufficient capital such that when the regulator asks us to undertake stress testing, we've got sufficient clearance over the required hurdle in all stress tests scenarios.

As well as that, we always carry a little headroom, I wouldn't refer to it as surplus capital as I don't believe it is surplus capital. We carry sufficient capital such that if is there was a spurt in the business or something that required a small amount of available capital, we have ready access to what we need.

I would make the point that I would not use the word surplus for the ratio that we have. It is appropriately high for us as a very highly rated bank.

Amir Hanna: there is a question asking us to repeat what we said on the debt law. We basically just said that it will be discussed in the Parliament session that will start end of October and the outcome should happen before the end of the year.

Still waiting for more questions to come in.

I have a question on provisions. While the overall provisions amount have remained the same during the 9M 2018 compared to last year, specific provisions have increased a lot this year while general provisions has gone down. Can you kindly explain the change in provisions both general and specific?

Jim Murphy: I suppose one might say there is a somewhat different provisioning regime in play at the moment. Previously, we were setting aside sums by way of precautionary provisions. In coordination with CBK, we had agreed to set aside provisions over a long period of time. Whereas this year, with IFRS9 on the horizon, we have been allowed to address some of the lending exposures that we think in due course would fall under the provisioning requirements that is staging requirements of IFRS9.

We took the opportunity with the agreement of the CBK, to set aside specific provisions in advance of the fuller adoption of IFRS9 in due course.

Amir Hanna: when IFRS9 is fully implemented, can we expect a step change/reduction in the cost of credit? Or would any change of cost of credit likely be tapered?

Jim Murphy: I think the honest answer to that is it would be imprudent to anticipate how IFRS9 may play out. I think it is important to be cognizant of the fact that we are very well provisioned. We have built large pools of provisions over time. The exact computations that we will arrive at when IFRS9 is fully applied is not possible to anticipate. We are working closely with the regulator to determine how exactly the stipulation of the standard would apply having regard to the many variables and parameters that will feed into the eventual ECL computation.

Much as I would like to try and answer that question, I think it would be imprudent to anticipate how things may transpire.

Amir Hanna: Should we expect any one offs or impairments in Q4?

Jim Murphy: No. I take it that the reference here is to the impairment that is the negative charge that we took in the current period in respect of an associate.

That was once off in nature and in actual fact, and I think I mentioned this along the way, the cause of the negative impact was actually a currency recycling as opposed to an impairment.

We don't expect anything similar in Q4.

Amir Hanna: We are waiting for any more questions.

We'll just wait for two more minutes and if we don't receive any more questions we'll just wrap-up the call

We don't have any more questions. With that, we will wrap-up the call.

Thank you all very much for being on our call today.

Will take that back to the Operator.

Operator: Thank you.

This concludes today's presentation. Thank you for your participation.

You may now disconnect